



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

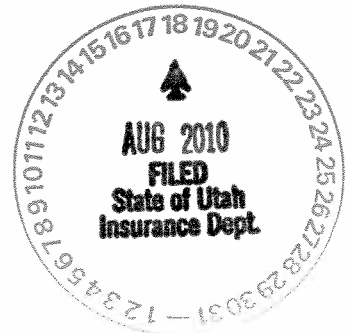
HUMANA MEDICAL PLAN OF UTAH, INC.

of

Sandy, Utah

as of

December 31, 2009



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July 15, 2010

Honorable Neal T. Gooch, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

HUMANA MEDICAL PLAN OF UTAH, INC.  
Sandy, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

#### SCOPE OF EXAMINATION

##### Period Covered by Examination

We have performed our full scope financial examination of Humana Medical Plan of Utah, Inc., hereinafter referred to as (the Organization). This examination covers the period of February 7, 2007 through December 31, 2009. This is the first examination of Humana Medical Plan of Utah, Inc.

##### Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and the NAIC Annual Statement Instructions when applicable to domestic state regulations. All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

This examination was coordinated with the 2008 examination of Humana Health Plan (HHP) by the lead state of Kentucky, which was in process during our examination.

### Status of Prior Examination Findings

This is the first examination of the Organization, and accordingly, there are no prior examination findings.

### SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings as a result of this examination.

### SUBSEQUENT EVENTS

The examination did not reveal any subsequent events on which to comment.

### ORGANIZATION HISTORY

#### General

Humana Medical Plan of Utah, Inc. was organized on February 7, 2007, and it commenced business on March 2, 2007 to provide a Title XVIII Medicare plan in Utah. It holds a certificate of authority to operate as a Health Maintenance Organization (HMO) in the state of Utah. The Organization is a wholly owned subsidiary of Humana Inc. (Humana), a Delaware insurance holding company, which owns one hundred percent (100%) of the issued and outstanding shares of common capital stock.

The articles of incorporation were filed with the Utah Division of Corporations on February 7, 2007, at which date its bylaws were also drafted. The examination made no changes to the Organization's articles or the bylaws since its inception.

#### Dividends and Capital Contributions

Humana contributed a total of \$4,000,000 gross paid in and contributed surplus, consisting of a \$2,000,000 contribution on February 7, 2007 and \$2,000,000 on September 24, 2008. The Organization did not declare or pay any dividends during the past three years.

#### Mergers and Acquisitions

The Organization was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

### CORPORATE RECORDS

Minutes of the meetings of the shareholder, directors, and committees were reviewed. The minutes indicated the Organization operates within the scope of its authority and the directors were properly informed of and participated in Organization affairs. At each annual board meeting, a report of investment transactions since the previous meeting is presented and approved. In general, the minutes of meetings of

shareholder, directors, and committees adequately approved and supported the Organization's transactions and events.

## MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Organization indicated the number of directors shall be no less than three or more than fifteen.

The following persons served as directors of the Organization as of December 31, 2009:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Michael B. McCallister Louisville, KY	President & Chief Executive Officer, Humana Inc.
James H. Bloem Louisville, KY	Senior Vice President, Chief Financial Officer & Treasurer, Humana Inc.
James E. Murray Louisville, KY	Chief Operating Officer, Humana Inc.
Melissa L. Weaver M.D. Louisville, KY	Vice President, Humana Inc.

As of December 31, 2009, the Organization had the following internal committee of the board of directors:

### Quality Improvement Committee

Steven Goldberg, MD - Chairman, Corporate Medical Director Clinical Policy  
Thomas James, MD - Medical Director, National Accounts  
Michael Sherman, MD - Corporate Medical Director, Clinical Strategies  
Karen Feldkamp - Director, Corporate Quality and Accreditation  
Carol Doyle - Director, Risk Management  
Darlene Holzbach - Corporate Quality Improvement  
Emilie Sims - Process Owner, Accreditation  
Helen Jubran - Quality & Accreditation  
Judy Herbstreit - Quality & Accreditation  
Karen Wooldridge - Corporate Quality  
Lynne Schifreen - Pharmacy  
Margaret Martin - Quality & Accreditation  
Marla Sanders - Delegation Compliance  
Mary Jane Branch - Regional Quality Director  
Mary Weiss - Regional Quality Director  
Mike Funk - NHPO  
Nancy Walsh - Quality, East Region  
Patrice Thor - Regional Quality Director  
Shari Dillon - CIT

Sondra Harp - Process Owner A&G - Kim Allison  
Stilla McMahon - Provider Communications  
Sue Suchan - Corporate Compliance  
Susan Hoffman - Regional Quality Director

The Organization is overseen by Humana's audit committee. The members of that committee are members of the board of directors of Humana, with the following members as of December 31, 2009:

Humana Inc.'s Audit Committee

Frank A. D'Amelio (Chairperson)  
William E. Mitchell  
James J. O'Brien  
W. Ann Reynolds, Ph.D.

Officers of the Organization as of December 31, 2009, were the following:

<u>Name</u>	<u>Title and Principal Occupation</u>
Michael B. McCallister	President and Chief Executive Officer
Paul P. Moore	Regional Chief Executive Officer/West
James H. Bloem	Senior Vice President, Chief Financial Officer and Treasurer
Earl F. Hurst	Market President – Utah
Thomas J. Liston	Senior Vice President – Senior Products
Kenneth S. Malcolmson	Regional Chief Executive Officer
Debra A. Smith	Regional President – Senior Products/West
Gary E. Goldstein, M.D.	Vice President and Division Leader Central Division
George G. Bauernfeind	Vice President
Joan O. Lenahan	Vice President and Corporate Secretary
Melissa L. Weaver, M.D.	Vice President
Ralph M. Wilson	Vice President
Frank M. Amrine	Appointed Actuary

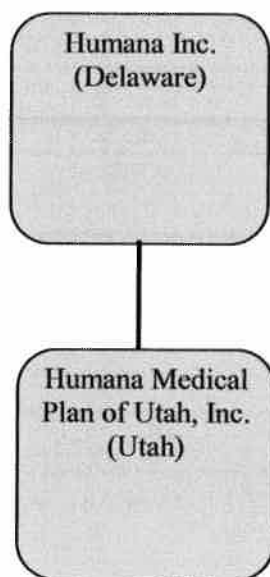
Subsequent to December 31, 2009, the following additional officers were elected:

Roy Goldman, Ph.D., Vice President and Chief Actuary  
Charles F. Lambert, III, Vice President  
Joseph C. Ventura, Assistant Secretary

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).

### Holding Company

The Organization is one hundred percent (100%) owned and controlled by Humana Inc. A full organizational chart illustrating the holding company system was provided on Schedule Y of the Annual Statement. The following organizational chart depicts only the direct line ownership of Humana Medical Plan of Utah, Inc.:



### Transactions with Affiliates

The Organization is included in the consolidated federal income tax return of Humana and its wholly owned subsidiaries. Under a written agreement, Humana allocates its federal income tax liability among the subsidiaries of the consolidated group (including the Organization) based on the ratio that each subsidiary's separate return tax liability for the year bears to the sum of the separate return liabilities of all subsidiaries. The final settlement under this agreement is made after the annual filing of the consolidated income tax return. In the event of a refund, settlement is made within 30 days of receipt of the refund.

The Organization has written management and service contracts with Humana and other related parties, whereby the Organization is provided with medical and executive management, information systems, billing and enrollment, telemarketing, and other services. A pro rata share of these costs is allocated to the Organization, subject to a maximum fee of 14% of premium. Management fees during 2009 were approximately \$344,000.

The Organization has an indemnity agreement, whereby Humana indemnifies the Organization from liability, loss, or damage it may suffer as a result of its failure to perform its obligations arising under certificates of coverage issued or assumed in respect to the furnishing of health care services to its subscribers should it or become insolvent or

otherwise financially incapable of furnishing such health care services. Humana guarantees continuation of coverage issued for the duration of the contract.

#### FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for the Organization's size and premium volume is not less than \$100,000. As of the examination date, the Organization participated in the group's fidelity bond coverage of \$10,000,000. The Organization is also a named insured on the parent's policies covering workers' compensation, professional liability, errors and omissions, and other risks.

#### PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization has no employees and thus it offers no employee benefit programs or life and health insurance plans for employees. All personnel working on behalf of the Organization are employees of an affiliated company, which provides services pursuant to administrative and service agreements.

#### TERRITORY AND PLAN OF OPERATION

As of the examination date, the Organization was authorized to conduct HMO business in the state of Utah. Although the Organization began operations in March 2007, it did not begin actively writing business until the first quarter of 2008.

As of December 31, 2009, the Organization had 502 members, with a total of 3,492 member months. The Organization offers coordinated health and pharmacy insurance coverage and related services through a variety of plans for government-sponsored programs. Under the Organization's federal government contracts with the Centers for Medicare and Medicaid Services (CMS), it provides health and pharmacy insurance coverage to Medicare-eligible members.

The Organization markets its products primarily through a network of independent agents and agencies. The current marketing plan is to continue the Medicare Advantage products in Utah, and also provide ongoing education to brokers regarding Humana's complement of Health, Dental, and Specialty products.

#### GROWTH OF ORGANIZATION

The Organization saw a slight increase in premium and expenses from 2008 to 2009, along with an increase in loss reserves, resulting in a decrease in net income of approximately 138%. The net premium to surplus ratio grew slightly from 2008 to 2009.



The Organization's financial results throughout the examination period:

<u>Description</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net admitted assets	4,906,471	4,925,839	2,052,622
Total liabilities	614,957	431,350	11,210
Total capital stock & surplus	4,291,514	4,494,489	2,041,412
Net income (loss)	(191,951)	506,931	40,412
Direct - Total premiums	3,193,682	3,119,072	0
Net Premium	3,193,682	3,119,072	0
Net Premium/ Surplus Ratio	74.42%	69.40%	0.00%

#### LOSS EXPERIENCE

Underwriting results for the period under examination:  
(000 Omitted)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Premiums earned	3,194	3,119	0
Claims and Claims Adjustment Expenses	2,969	2,364	0
Loss ratio	93.0%	75.8%	0
Member months	3,492	4,487	0

#### REINSURANCE

The Organization has no reinsurance contracts either ceding or assuming; however, it is protected under an Indemnity Agreement with Humana Inc. as noted in Transactions with Affiliates.

#### ACCOUNTS AND RECORDS

The Organization's accounting systems were maintained on a local area network. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An independent certified public accounting firm audited the Organization's records during 2008 and 2009. Audit reports generated by the auditors for the years 2008 and 2009 were made available for the examiner's use. The Organization met the requirements of exemption from 2007 audited financial statements.

## STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$550,000, pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of a Certificate of Deposit with a market value of \$550,000 and a par value of \$550,000, which was adequate to cover the required deposit of \$550,000.

## FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

HUMANA MEDICAL PLAN OF UTAH, INC.  
BALANCE SHEET (ASSETS)  
as of December 31, 2009

	Net Admitted Assets
	<hr/>
Cash and Cash Equivalents	\$ 4,783,277
Investment Income Due and Accrued	2,463
Uncollected Premiums and Agents' Balances	1,551
Accrued Retrospective Premiums	40,653
Receivable From Parent, Subsidiaries and Affiliates	67,026
Health care and other amounts receivable	11,501
	<hr/>
Total Assets	\$ <u>4,906,471</u>

HUMANA MEDICAL PLAN OF UTAH, INC.  
BALANCE SHEET (LIABILITIES, CAPITAL AND SURPLUS)  
as of December 31, 2009

	<u>Current Year</u>
Claims unpaid (less \$0 reinsurance ceded)	\$ 513,612
Unpaid claims adjustment expenses	10,541
Aggregate health policy reserves	13,246
Premiums received in advance	20
General expenses due or accrued	1,503
Net deferred tax liability	47,769
Liability for amounts held under uninsured plans	27,631
Aggregate write-ins for other liabilities	635
Total Liabilities	<u>\$ 614,957</u>
 SURPLUS AND OTHER FUNDS	
Common capital stock	\$ 1,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	290,514
Total Capital and Surplus	<u>\$ 4,291,514</u>
Total of Liabilities, Surplus, and Other Funds	<u><u>\$ 4,906,471</u></u>

HUMANA MEDICAL PLAN OF UTAH, INC.  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2009

	<u>Current Year</u>
Net premium income	\$ 3,193,682
Total Revenues	<u>\$ 3,193,682</u>
Hospital/medical benefits	2,626,158
Other professional services	28,223
Emergency room and out-of-area	100,611
Prescription drugs	320,507
Total hospital and medical expenses	<u>\$ 3,075,499</u>
Claims adjustment expenses	73,428
General administrative expenses	353,497
Total underwriting deductions	<u>\$ 3,502,424</u>
Net underwriting gain or (loss)	<u>\$ (308,742)</u>
Net investment income earned	12,255
Net realized capital gains or (losses)	(38)
Net investment gains or (losses)	<u>\$ 12,217</u>
Net income or (loss) after capital gains tax and before other federal income taxes	<u>\$ (296,525)</u>
Federal and foreign income taxes incurred	<u>(104,574)</u>
Net Income (Loss)	<u><u>\$ (191,951)</u></u>

HUMANA MEDICAL PLAN OF UTAH, INC.  
RECONCILIATION OF CAPITAL AND SURPLUS  
2007 through 2009

	2007	2008	2009	Per Exam 2009
Capital and surplus prior reporting year	\$ 0	\$ 2,041,412	\$ 4,494,489	\$ 4,494,489
Increase (decrease) in common stock	1,000			
Increase (decrease) in contributed capital				
Net Income (or loss)	40,412	506,931	(191,951)	(191,951)
Change in net deferred income tax		(52,472)	4,703	4,703
Change in non-admitted assets		(1,382)	(15,727)	(15,727)
Surplus adjustments: Paid in	<u>2,000,000</u>	<u>2,000,000</u>		
Net change in capital and surplus	<u>2,041,412</u>	<u>2,453,077</u>	<u>(202,975)</u>	<u>(202,975)</u>
Capital and surplus end of reporting year	<u>\$ 2,041,412</u>	<u>\$ 4,494,489</u>	<u>\$ 4,291,514</u>	<u>\$ 4,291,514</u>

## COMMENTS ON FINANCIAL STATEMENTS

### (1) Capital and surplus

\$4,291,514

The Organization's capital and surplus was determined to be \$4,291,514, which is the same as the amount reported in the Organization's annual statement as of December 31, 2009.

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$4,291,514, which exceeded the Organization's action level risk-based capital (RBC) requirement of \$1,505,870 by \$2,785,644.

## SUMMARY OF RECOMMENDATIONS

There are no examination findings or recommendations on which to comment.

## ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of Lewis & Ellis Actuaries and Consultants, performed the actuarial phases of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Aaron Phillips, CFE, and David Flores, CPA, APIR, AFE, participated in the examination representing the Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,



Carolyn Maynard, CFE, Examiner-in-Charge  
Huff, Thomas & Company  
Representing the Utah Insurance Department